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The Older Americans Act sets out several objectives including "An adequate income in retirement in accordance with the American standard of living." This is a worthy goal, but, in the wise words of the writer Antoine de Saint-Exupery "a goal without a plan is just a wish." Planning—by individuals and policymakers—is crucial to meet the challenges that our aging populations face in the 21st Century. The largest challenge is the demographic shift now underway as the baby boomers move into their disability-prone and retirement years. But that is hardly the only challenge. The changing face of private sector pensions requires additional planning so they can continue to play their important role in lifetime income. Medicare and Medicaid are taking an ever growing share of our Nation's production. Rising health costs will also consume an increasing portion of retiree income to meet premiums, deductibles, and other out-of-pocket costs. And, with the aging population increasingly composed of the older old, we will rapidly see an explosive increase in the need for long-term care and other intensive services.

At the beginning of the twentieth century, most Americans did not really participate in the concept of retirement. Life expectancy was shorter both at birth and at older ages. Social Security and Medicare did not exist. Few private pension programs existed. Most people expected to continue working as long as they could – often until they died. Over the course of that century, and especially the latter half of that century, there were great changes. People lived longer and retired earlier. We had great advances in technology and productivity and a growing and more highly trained and educated workforce. Our prosperity and our demographics made possible both private and public institutions that were able to provide a significant degree of security in retirement. But, even in the advantageous circumstances of the last 50 years, we have not achieved the goal of an adequate income in retirement. Social Security, which is supposed to be the foundation for retirement security, represents almost the entire income—90 percent or more—for one out of every three beneficiaries. It is more than half of income for 2 out of every three beneficiaries.

If we are going to hold our own, let alone make progress, in our quest for retirement income and health security in this challenging 21st century, we are going to have to do a much better job of accumulating resources over our lifetime. Government programs like Social Security, Medicare, and Medicaid will still play an important role in retirement security, but it would be a great mistake to think that the relatively smaller workforce of the future can support the growth in those programs that would be needed to provide our aging society an adequate retirement. They don't do it now. They will be even less able to do it in the future. So what is the answer? We—as individuals and as a society—are going to have to do a better job of preparing for our future by planning over the lifespan to accumulate and manage the resources we will need.

The Social Security program, although it obviously needs immediate attention, has the right basic approach. Social Security accumulates over the long period of one's working lifetime. It's not "just there", automatically, if one lives to be 62 or older. Workers pay into the program as soon as they start working. In part, of course, that provides valuable survivorship and disability protection. But most working men and women think about their Social Security taxes as contributing towards their future retirement. That same mindset needs to be nurtured for participation in pensions, individual savings, and long-term care insurance. We used to view life in 3 stages: a startup phase when you concentrate on raising a family, educating your children, buying a home; a mature phase when you begin socking away funds for retirement; and a retirement phase when you start drawing down those savings. That approach of postponing retirement accumulations to later in the career really doesn't work all that well now, and certainly is not an adequate plan for a future of longer lives, greater need for intensive services, and public programs that must be financed by a smaller working-age population. We've gone from a nation that had 5 workers for each Social Security beneficiary in 1960 to 3 workers per beneficiary now and continuing to drop to 2 workers per beneficiary by 2040.

So our theme for individuals and also for society has to be "sooner rather than later" or—realistically—"sooner rather than too late." As a Nation, we certainly need to start soon to fix the programs that we can clearly see are in trouble. Social Security and Medicare and Medicaid are the obvious and most serious cases. These foundational programs, in their current form, are not sustainable. Medicare's Hospital Insurance program is already paying benefits that exceed its earmarked payroll taxes. Social Security will be in the same situation in little more than a decade. Together Medicare, Medicaid, and Social Security now consume about 8 percent of the Nation's total output. By mid-century, that will grow to about 18 percent. Only by acting soon can we fix these programs without drastic increases in taxes on a smaller workforce or drastic and sudden cuts in benefits. And we need a broad perspective that sees these programs and individual accumulations as an integrated package of retirement security. Changes in Medicare affect the adequacy of Social Security benefits. Typical out-of-pocket costs not covered by Medicare will increase to nearly 50% of the average Social Security benefit amount within the next 15 years. For many Medicaid recipients, their Social Security benefits represent an offset to what Medicaid will pay for long-term care. We need to encourage creative integration like the partnership programs for combining Medicaid and long-term care insurance. It makes no sense for Federal laws to prohibit such incentives as they now do in all but 4 States. In fixing Social Security, we should also find a way to assure that individuals will supplement that basic protection with their own individual accounts.

How do we actually bring about lifespan planning and preparing for retirement? Some voices will say that we are being too pessimistic. Somehow unexpected levels of productivity may offset the coming one-third reduction in the

relative size of the working-age population. Maybe medical technologies and cures for Alzheimer's and osteoporosis, instead of continuing to drive up costs, will reverse course and make us all live healthier lives at lower cost. That is wishful thinking, or special interest promotion, but clearly a head-in-the-sand approach. Even if we can trim costs per day of long-term care and provide research incentives that could accelerate these hoped for cures, we are going to be spending a lot more on expensive treatments and care. The number of people over age 85 will double by 2020 and double again by mid-century. Providing the care these fragile populations will need is labor intensive whether you are talking about care in a skilled facility or care at home. With accelerating workforce shortages, global costs are going to be more expensive. So we can't waste time.

A couple of general approaches do make sense. We can shape government programs to provide incentives and support for lifetime planning and the accumulation of resources. And we can get serious about the need for financial planning.

We must incorporate financial management into the mandatory core curriculum of our education systems. No one should graduate from high school without having learned what individuals need to accumulate in the way of personal resources for retirement, how much difference it makes to begin that accumulation at the start of their working life, and how they can avoid being taken advantage of by practitioners of fraud and abuse. This type of financial education should be reinforced in adult education programs.

Employer sponsored retirement plans provide a huge contribution to the retirement security of Americans. But the economic context for such plans is changing. Some large industries, facing increased global and domestic competition, have terminated their pensions in bankruptcy. Even for healthy companies, the changing nature of the workforce has brought about a move away from the traditional pension providing an annuity and towards plans involving less risk, more individual ownership, and usually payouts in the nature of lump-sums rather than annuities. This has some advantages for an increasingly mobile workforce, but it also raises the need to make sure the governmental policies affecting this sector are designed to encourage building an adequate retirement. For example, given the need for greater accumulation of resources, many older individuals want to continue working on a part time basis instead of taking an early retirement, but government rules now make such phased retirement difficult. That should change. The Pension Benefit Guarantee Corporation takes over terminated pension programs and assumes their liability for benefit payments. Unfortunately, current rules have loopholes allowing some plans to over promise in a risky way without paying premiums that cover the risk. That needs to be corrected so that workers can count on the protection offered by the PBGC, but the changes need to address the risky plans without discouraging the continuation or formation of responsible plans. The greater flexibility of many of today's plans place a greater burden on workers to understand and manage those plans. Employers can provide more guidance to their

employees and structure default choices that favor increased participation and balanced investment strategies. Government policies should protect employers who take those actions. Lump-sum payouts also create challenges for assuring adequate lifetime income. Tax rules and other policies should encourage more annuitization.

More can be done to stimulate individual lifetime preparations for retirement security through private savings and participation in programs of insurance against the increasingly likely need for long-term care. Some incentives already exist but need to be made more widely known. For example, Health Savings Accounts are a hidden tool. Amounts in those pre-tax, tax-advantaged accounts that are not needed to cover current medical costs can be expended to pay the premium for long-term care insurance. Individual Retirement Accounts—IRAs—are a wonderful incentive for savings. But they work best when started early, and the rules should be reexamined to remove barriers to participation. Currently, for example, there are penalties if distributions do not begin at age 70 ½. With so many people living to their 80s, 90s, and beyond, we should be encouraging them to hang on to those savings so that they will be available when they need the additional income to cover more intensive services. We should also encourage it because we need increased savings to produce a more productive economy. We should repeal or raise the age fixed in law for forced withdrawals.

Lifetime planning and preparation is crucial to a successful retirement security policy, so incentives should be particularly strong at earlier ages. The rules for IRAs, 401(k)s, and other forms of tax advantaged savings should provide larger tax advantage for those who begin to participate early in their career. Similarly we should provide tax incentives for early participation in long term care insurance when the premium cost is much lower. The law could, in exchange for the more stimulative tax break, make coverage or content rules like a minimum payout of 36 months or more, home health and companion care, and assisted living as well as skilled nursing home care, and pay with only two ADLs.

As individuals, far too many of us are not adequately prepared for the financial and health-related needs we will face in old-age. As the boomer—this tsunami of age—wave approaches, we must seize this transformational time to develop government incentives and private initiatives to become less dependent on tax paid or subsidized benefits in retirement. Policymakers need to adjust the institutional arrangements that will help meet those needs: fix Social Security, programmatically deal with the costs of Medicare and Medicaid, improve the legal and tax framework for employer-sponsored retirement plans, and raise incentives for savings and for long-term-care insurance.

But these cardinal tasks will not be achieved unless we first of all foster the public and individual education and planning that will enable us to understand how great these challenges are and to accept the reality that an adequate future can only be assured if we, as individuals and a society, plan for our future and divert some of

our resources from current consumption to savings for that future — sooner rather than later.